The Real Estate ANALYST

JUNE 17
1955

MORTGAGE BULLETIN

Volume XXIV

Number 26

Real Estate Economists, Appraisers and Counselors

NEW MORTGAGE PEAK IN SIGHT

AS the midpoint of the year approaches, the United States is enjoying one of the most buoyant - not to say exuberant - periods of prosperity in its history. Virtually every significant barometer of business activity - employment, industrial production, personal income and retail sales - is setting a new record. Just last week a ranking Washington official estimated that national output of goods and services currently is running at an annual rate of $375 billion, well ahead of the previous peak year of 1953 and an alltime high.

Mortgage lending, too, is well on its way toward setting some kind of milestone in 1955. The figures, in fact, are nothing short of eye-opening. According to the Home Loan Bank Board, nonfarm recordings of $20,000 or less in the first 3 months of the current year (latest period for which data are available) totaled $6.4 billion, a whopping 40% ahead of the comparable 1954 period. In March alone, some $2.4 billion worth of mortgages were made, nearly 38% ahead of last year.

All lenders shared in the remarkable upsurge, but insurance companies and savings and loan associations led the parade. In March, for the first time, the latter extended loans totaling over $1 billion in a month, or more than these thrift institutions put on their books in all of 1939. For the full year, incidentally, the United States Savings and Loan League reports, the associations expect to do some $10 billion in mortgage financing. Volume of the home finance industry as a whole, it now appears, will run to $25-$26 billion, well ahead of the $23 billion of 1954.

Hidden in these huge totals are some noteworthy lending trends. For one thing, the spurt in VA-guaranteed loans, which set in early last year, was still in full swing as spring began. Just 12 months ago, VA-financed housing starts topped the number of FHA starts, and since then the gap has widened noticeably. In 1954, VA starts accounted for 26% of all private units, up sharply from 15% of the previous year. FHA starts, by contrast, slipped from 24% to 23%. In the first 4 months of 1955, moreover, VA starts rose further, to 28% of the total, while new homes financed under FHA retreated to 22%.

At the same time, there has been a striking increase in mortgages made on existing dwellings. This, of course, was one of the primary purposes of the

Housing Act of 1954, which relaxed downpayments and maturities on older dwellings, but the market's response has exceeded most lenders' expectations. Some recent figures supplied by the Federal Housing Administration underscore the point. In January-March 1955, noted FHA, applications for insurance on new homes rose by 42%; in the same period, applications covering existing dwellings soared by nearly 102%.

A similar pattern turned up in the mortgage insurance actually written by the agency. In the first quarter of 1955, FHA insured 33,706 new homes, a slight decline from the 35,669 units of 1954. By contrast, it insured liens on 46,713 existing homes, 116% more than the 21,616 in January-March a year ago.

In view of the tremendous volume of credit pouring into the housing market, it's not surprising that prices for homes, both new and used, have been firming lately. One of the biggest home builders in Detroit last month raised prices by $300 across the board, and National Homes Corporation, biggest United States producer of prefabricated houses, plans to increase its factory prices by 1% on September 1.

Another consequence of the heavy demand for mortgage money, reinforced by the general firming of interest rates, has been a slow, but steady, tightening of mortgage terms and a whittling of prices. For example, discounts on VA no downpayment 4½s, which first became noticeable earlier in the year, are now standard throughout the United States. In some cities that are more remote from the big lending centers, such discounts today are running as high as 4 and 5 points. VA loans with equities of 5-10%, as well as FHA's, are changing hands in some parts of the country at 97-98.

The growing tightness of mortgage credit may be seen, too, in the new popularity of the Federal National Mortgage Association. As recently as mid-April, knowledgeable brokers in the East were referring to FNMA as "the Sleeping Beauty." Now, virtually overnight, it appears, Fanny Mae has awakened. Its secondary market, largely ignored since it opened for business last fall, after the agency's sweeping reorganization, now is doing considerable business. Mortgages are being submitted to it at the rate of better than a million dollars a week. In one recent 7-day period, it actually bought 190 liens for a total of $1.4 million.

One consequence of the pickup in FNMA's activities, of course, will be an increase in the amount of its common stock outstanding (under the law, sellers must buy stock to the extent of 3% - reduced to 2%, under pending legislation - of the face value of all loans sold). While no great amount of such securities is outstanding as yet, the Treasury budget for the coming fiscal year estimates that some $10 million worth will be in private hands by June 30, 1956. This may well be a conservative figure, in view of the current trend of the money market.

On that score, the outlook unmistakably is for a further firming of interest rates. True, since early May the market has enjoyed what the First National

City Bank the other day aptly called "an interlude of easy money." Yields on such short-term securities as Treasury bills have declined a trifle, and one leading finance company, for the first time this year, trimmed the rate on commercial paper. This brief respite, it appears, resulted largely from moves made by the Federal Reserve to assist the Treasury in a recent piece of financing. However, it is almost certainly nothing more than a temporary pause in what - considering both supply-demand and the probable attitude of the monetary authorities in Washington - seems to be a continued swing to tighter money.

Let's consider supply and demand for a moment. The reservoir of institutional savings available for mortgages and other investments rose by more than $14 billion in 1954. While the pool has continued to fill up this year, the rate lately has been slackening. In the first 4 months, for example, the net gain in savings bank deposits was only $524 million, against $566 million in the like period 12 months ago. Significantly, in April alone, for the first time since February 1951, withdrawals exceeded deposits. While other thrift institutions have been doing somewhat better, it now appears that total savings in 1955 will slip below last year's figure.

On the other hand, demand for funds from sources other than home finance is mounting sharply. Corporate long-term borrowing, for example, is running well ahead of 1954 levels. Business loans, which usually decline in the first half, have been displaying unseasonal strength, and consumer debt is increasing at a rapid clip.

As to Federal monetary policy, that's always a matter of guesswork. However, with business booming, the money managers before long probably will have to take further steps to restrain credit. Last week the rumor spread through Wall Street that the Federal Reserve was planning to hike margin requirements on stock purchases from the current level of 70%, and this may yet occur. But more important, the Board in coming months is likely to put pressure on bank reserves through open-market operations, and up the rediscount rate another notch or two.

Meanwhile there has been action on the legislative front. A new housing measure, known as the "Housing Act Amendments of 1955," has been approved by the Senate and soon will be voted on in the Lower Chamber. The most controversial feature of this measure - and the one which has captured most of the headlines - is its provision to rebuild the public housing program. But the bill also has other, less publicized features of some importance to lenders.

For example, it furnishes FHA with another $4 billion in insurance authorization (less some $600 million in unused authority); extends Title I for another 5 years and increases from $2,500 to $3,000 the maximum home improvement loan; and raises the present limit on multifamily projects from $5 million to $12.5 million. In addition, it contains a technical amendment enabling FHA to make a final settlement of certificates of claim held by mortgagees at any time

after the agency sells or transfers title of defaulted sales housing. This would be a considerable improvement, from the standpoint of both FHA and the lender, over current practice. Finally, the Amendments, among other things, are designed to revive the construction of cooperatives under Section 213, which went into an eclipse last year, by returning to the concept of replacement cost.

Whatever changes may be made in the new legislation before final passage by Congress, one fact is clear: it shows no disposition by the Government to retreat from the strategic position it already occupies in the fields of housing and home finance. On the contrary, in some respects it breaks fresh ground - in particular, for the first time it would make FHA mortgage insurance available to trailer courts and parks, and "renew and invigorate" the program of long-term, low-interest Government loans to colleges.

This tendency was pointed out by James W. Rouse, member of the Board of Governors of the Mortgage Bankers Association. Said Mr. Rouse: "It is obvious that there is boiling to the top . . . a succession of requests by charitable-type institutions for some sort of Government assistance."

In short, financially speaking, 1955 will be a peak year for the mortgage business; in terms of principle and sound lending philosophy, however, much clearly remains to be done.